



## Pricing Appetite Growing

Almarai reported -12% Y/Y decline in earnings with SAR 0.58 EPS, inline with our SAR 0.59 estimate. In investor call yesterday, the Company signaled some positive indicators namely, stabilizing F&B market, growing appetite for product price increase across UHT and poultry and higher free cashflow in the short- to medium term. Management plans to tackle upcoming 50% tax on sugary drinks by greater adoption of non-added sugar portfolio. In our view, domestic juice demand may further moderate however regional markets may offset some impact. We maintain Buy and SAR 61 target price, representing 18.5x 2020E EV/EBITDA on Almarai's resilience to counter cost challenges.

### Fresh milk market continues to shrink

Total revenues gained +2.6% Y/Y to SAR 3,767 mln, slightly ahead of our SAR 3,698 mln estimate, as poultry continued to perform well (+21% Y/Y) and contributing 80% of growth. Management expects to reach full poultry capacity in 3Q to deliver 10-12% revenue growth next year. Meanwhile juice segment remained under pressure as consumers switch to lower-priced alternatives. In December, KSA is expected to introduce 50% tax on sugary drinks (applied on retail price) which could further moderate demand. Almarai aims to mitigate impact by raising non-added sugar offerings to product mix. Company reports indicate market growth across majority of food segments, however fresh milk contracted -1.5%. Management feels that they are on better footing to manage fresh milk inventory – however no clear indication provided of a turnaround.

### Gross margin may get relief from price increase

Gross margin was pinched by gradual uptick in imported alfalfa, which may take another 4-6 quarters to drain local stock build-up. However, discounting appears to be easing on UHT as prices are +8-10% from last year (c. SAR 3.5-3.8 / liter). Management feels that prices have a long way to rise but focus will shift to improving margins even if that means sacrificing volume. Second, as early as next year, poultry prices may start to rise as segment growth shifts to a combination of price-volume vs purely volume in the ramp-up phase. Our sense is that appetite for price increases is growing across product categories – setting up crucial test for brand loyalty.

### Capex optimized to free cash

Net income of SAR 583 mln (-12% Y/Y) was slightly below our SAR 588 mln forecast. In 2H19, we see scope for improved earnings performance driven by poultry and stabilization in juice. Capex for the year is targeted at SAR 2.4-2.5 bln (mostly maintenance), reflecting tighter market conditions. Free cashflow is expected to further improve in the short- to medium term, which in our view could ease debt burden in the coming quarters (current net debt-to-EBITDA 3.4x).

SAR mln	2Q19	2Q19E	2Q18	Y/Y Chg	1Q19	Q/Q Chg	% Variance
Sales	3,767	3,698	3,672	2.6%	3,307	13.9%	1.9%
Dairy & juice	2,785	2,722	2,806	-0.8%	2,332	19.4%	2.3%
Bakery	395	411	422	-6.4%	421	-6.2%	-3.8%
Poultry	527	493	437	20.7%	500	5.4%	6.8%
Others	61	72	66	-7.5%	54	13.0%	-15.1%
Gross profit	1,467	1,476	1,449	1.3%	1,162	26.2%	-0.6%
Gross margin	38.9%	39.9%	39.4%		35.1%		
EBITDA	1,097	1,083	1,171	-6.3%	803	36.6%	1.3%
EBITDA margin	29.1%	29.3%	31.9%		24.3%		
Operating income	739	721	764	-3.4%	481	53.6%	2.4%
Operating margin	19.6%	19.5%	20.8%		14.5%		
Net income	583	588	661	-11.9%	336	73.4%	-0.9%
Net margin	15.5%	15.9%	18.0%		10.2%		
EPS (SAR)	0.58	0.59	0.66	-11.9%	0.34	73.4%	

**SAR 61**

12-Month Target price

**Buy**

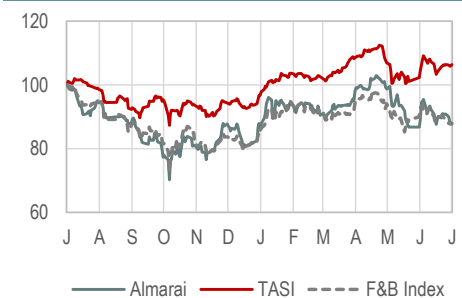
Recommendation

Stock Details		
Last Close Price	SAR	55.50
Upside to target	%	18.4
Market Capitalization	SAR mln	51,500
Shares Outstanding	mln	1,000
52-Week High	SAR	61.00
52-Week Low	SAR	40.80
Price Change (YTD)	%	7.3
3-Mth ADTV	thd	853
EBITDA 2019E	SAR mln	4,001
Reuters / Bloomberg	2280.SE	ALMARAI AB

SAR mln	2018	2019E	2020E
Revenues	13,723	13,689	13,766
Gross Margin	40%	40%	39%
EBIT	2,461	2,550	2,546
Operating Margin	17.9%	18.6%	18.5%
Net Income	2,009	2,100	2,119
Net Margin	14.6%	15.3%	15.4%
Attr EPS (SAR)	1.95	2.10	2.12
DPS (SAR)	0.85	1.00	1.00

Price Multiples			
	2018	2019E	2020E
P / E	26.4x	24.5x	24.3x
EV / EBITDA	17.0x	16.2x	16.1x
P / S	3.8x	3.8x	3.7x
P / B	3.7x	3.4x	3.2x

### 1-Year Share Performance (Rebased)



Source: Bloomberg, Tadawul, SFC

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## Research and Advisory Department

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### Rating Framework

#### **BUY**

Shares of company under coverage in this report are expected to outperform relative to the sector or the broader market.

#### **HOLD**

Shares of company under coverage in this report are expected to perform inline with the sector or the broader market.

#### **SELL**

Shares of company under coverage in this report are expected to underperform relative to the sector or the broader market.

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